

2002 projects, as well as the timing of promotional payments. Combined, these negative 2003 cash outflows were essentially offset by the absence of \$239 million in product recall spending, which occurred during 2002. Cash provided by operating activities was also negatively impacted in 2002 by a one-time tax payment of \$86 million on a cross-currency interest rate swap gain, which occurred during 2001.

The principal recurring investing activities are capital expenditures to support the Company's investment in its global operating platform to deliver innovative solutions for consumers. During 2004 and 2003, Whirlpool entered into separate sale-leaseback transactions whereby the Company sold and leased back its owned properties. Proceeds related to the sale-leaseback of six properties in 2004, net of related fees, were approximately \$66 million. In 2003, proceeds related to the sale-leaseback of four properties, net of related fees, were approximately \$65 million.

Total repayments of short-term and long-term debt, net of new borrowings, were \$58 million, \$208 million and \$236 million in 2004, 2003 and 2002, respectively. Dividend payments to stockholders totaled \$116 million, \$94 million and \$91 million in 2004, 2003 and 2002, respectively. The Company repurchased approximately 3.7 million shares, 1 million shares and 0.7 million shares of Whirlpool common stock for \$251 million, \$65 million and \$46 million in 2004, 2003 and 2002, respectively. The stock repurchases were previously authorized by the Board of Directors.

The Company also redeemed \$33 million and \$25 million in 2003 and 2002, respectively, in preferred stock of its discontinued finance company, Whirlpool Financial Corporation. Whirlpool received proceeds of \$64 million in 2004, \$65 million in 2003 and \$80 million in 2002 related to the exercise of Company stock options.

Financial Condition and Liquidity

The Company's objective is to finance its business through the appropriate mix of long-term and short-term debt. Whirlpool has varying needs for short-term working capital financing as a result of the nature of its business. The volume and timing of refrigeration and air-conditioning production impact the Company's cash flows with increased production in the first half of the year to meet increased demand in the summer months. The Company finances its working capital needs primarily

through the commercial paper markets in the U.S., Europe and Canada. These commercial paper programs are supported by committed bank lines. In addition, outside the U.S., short-term funding is also provided by bank borrowings on uncommitted lines. The Company has access to long-term funding in the U.S., European and other public bond markets.

The Company's financial position remains strong. At December 31, 2004, Whirlpool's total assets were \$8.2 billion versus \$7.4 billion at December 31, 2003. Stockholders' equity increased from \$1.3 billion at the end of 2003 to \$1.6 billion at the end of 2004. The increase in equity is primarily attributed to net earnings retention and a \$174 million increase in equity through foreign currency translation adjustments offset by share repurchases of \$251 million.

The Company's overall debt levels have remained relatively unchanged versus 2003. Cash flows from operations have been used to repurchase stock, fund higher capital expenditures and pay increased dividends.

In May 2004, Whirlpool allowed its \$400 million committed 364-day credit facility to expire. Simultaneously, the Company increased the size of its \$800 million committed credit facility to \$1.2 billion and extended its maturity from 2006 to 2009. This committed facility supports commercial paper programs and other operating needs. There were no borrowings under these facilities during 2004 or 2003. Whirlpool was in full compliance with its bank covenants throughout both 2004 and 2003. None of the Company's material debt agreements requires accelerated repayment in the event of a decrease in credit ratings.

In 2004, the Company announced that it plans to invest approximately \$180 million to strengthen Whirlpool's brand leadership position in the global appliance industry. The Company plans to continue its comprehensive worldwide effort to optimize its regional manufacturing facilities, supply base, product platforms and technology resources to better support its global brands and customers. Approximately \$100 million of the investment will fund initiatives at the Company's manufacturing facilities in the United States, and the remainder will be used to begin work on the expansion of the Company's washer production facility in Monterrey, Mexico, and the construction of a new refrigeration facility in Ramos Arispe, Coahuila, Mexico.

Other Matters

While lower discount rates increased Whirlpool's pension obligations during 2004, improvement in equity market performance during the year increased the value of pension fund assets. Whirlpool also contributed approximately \$49 million pre-tax (\$31 million to funded plans) to its U.S. pension plans during 2004, of which \$31 million was a voluntary contribution and \$18 million was required. The Company also contributed \$21 million to its foreign plans during 2004. At December 31, 2004, the Company's defined benefit pension plans still remain underfunded on a combined basis.

The Company recognized consolidated pre-tax pension cost (credits) of \$91 million, \$78 million and \$(37) million in 2004, 2003 and 2002, respectively. The Company currently expects that U.S. pension cost for 2005 will be approximately \$66 million, based on a plan amendment, an expected rate of return on assets assumption of 8.75% and a lower discount rate of 5.80%. The \$66 million compares to pension cost of \$68 million in 2004. Consolidated pension cost in 2005 is anticipated to be approximately \$91 million, relatively unchanged from 2004.

In January 2005, the Company amended the Whirlpool Employees Pension Plan. The effect of this amendment will be to reduce the projected benefit obligation by approximately \$80 million. The accumulated benefit obligation will not be affected by the amendment.

The Company is involved in various legal actions arising in the normal course of business. Management, after taking into consideration legal counsel's evaluation of such actions, is of the

opinion that the outcome of these matters will not have a material adverse effect on the Company's financial position or results of operations.

Market Risk

The Company is exposed to market risk from changes in foreign currency exchange rates, domestic and foreign interest rates, and commodity prices, which can affect the Company's operating results and overall financial condition. Whirlpool manages its exposure to these market risks through its operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. Derivative financial instruments are viewed as risk management tools and are not used for speculation or for trading purposes. Derivative financial instruments are entered into with a diversified group of investment grade counterparties to reduce its exposure to nonperformance on such instruments. The Company's sensitivity analysis reflects the effects of changes in market risk but does not factor in potential business risks of the counterparties or appropriate use of instruments.

Whirlpool uses foreign currency forward contracts, currency options and currency swaps to hedge the price risk associated with firmly committed and forecasted cross-border payments and receipts related to its ongoing business and operational financing activities. Foreign currency contracts are sensitive to changes in foreign currency exchange rates.